COMMITTEE WORKSHOP

BEFORE THE

CALIFORNIA ENERGY RESOURCES CONSERVATION

AND DEVELOPMENT COMMISSION

In the Matter of:	
Preparation of the 2005 Integrated Energy Policy Report (Energy Report)	Docket No. 04-IEP-01-D
Re: Scenarios and Uncertainties Relating to the Electricity Resource Data Requests for the 2005 Integrated Energy Policy Report	

CALIFORNIA ENERGY COMMISSION

HEARING ROOM A

1516 NINTH STREET

SACRAMENTO, CALIFORNIA

TUESDAY, FEBRUARY 15, 2005

9:06 A.M.

Reported by:
Peter Petty
Contract No. 150-04-002

COMMISSIONERS PRESENT

John Geesman, Presiding Member

James Boyd, Associate Member

STAFF and CONTRACTORS PRESENT

Kevin Kennedy

Al Alvarado

Karen Griffin

Jim Woodward

Lynn Marshall

ALSO PRESENT

Manuel Ramirez
California Public Utilities Commission

Steven Kelly
Independent Energy Producers Association

Bruce McLaughlin, Attorney
Braun & Blaising, P.C.
representing California Municipal Utilities Association

Andrew L. Trump
Duke Energy North America

Nancy E. Ryan
Environmental Defense

Jane H. Turnbull
League of Women Voters, Los Altos/Mountain View Area

Raymond P. Juels
Southern California Water Company
Bear Valley Electric Service

Robert Kinosian
Office of Ratepayer Advocates
California Public Utilities Commission

ALSO PRESENT

Scott Cauchois, Senior Manager
Office of Ratepayer Advocates
California Public Utilities Commission

Nora E. Sheriff, Attorney
Alcantar & Kahl, LLP
Cogeneration Association of California
Energy Producers and Users Coalition

Michel P. Florio
The Utility Reform Network
(via teleconference)

Gary L. Schoonyan
Southern California Edison Company

I N D E X

P R O C E E D I N G S

9:06 a.m.

PRESIDING MEMBER GEESMAN: I want to welcome all of you to a Committee workshop of the California Energy Commission's 2005 Integrated Energy Policy Report Committee. I'm John Geesman, the Commission's Presiding Member of that Committee. To my left is Commissioner Jim Boyd, the Associate Member of that Committee.

The breadth of our agenda today is pretty large. And as a consequence I want to encourage perhaps a greater level of informality in the process today than we've ordinarily observed. And I'd extend that to people listening in on the telephone, as well.

Where we are headed is the development of a Committee order that will more clearly provide direction as to scenarios and uncertainties which we'd like the responding parties to address in their submittals to us a little bit later this spring.

The staff has laid out, I think, a good survey of those issues in the attachment to the agenda which is also found on pages 53 to 59 of the forms and instructions document.

Let me say that the Committee has a couple of principal objectives in the discussion today and in the order that we will be issuing in a few weeks.

The first of those is how best to serve the needs of the CPUC's 2006 procurement cycle. As I think everybody in the room and listening understands, our process and the PUC's procurement process are integrated to an extent that we have not attempted before, and that I think will require the best efforts of all of us to successfully achieve.

It's important that we do that and also important we recognize some of the strains in doing that. The biggest one that I can see is the fact that we're sitting here on February 15, 2005, and attempting to shape input into a process that will unfold in 2006 at the CPUC.

I think all of us recognize the temptation in 2006 to raise questions of well, you should have considered X; or why didn't you look at Y. And I'll certainly be the first to acknowledge this Commission is oftentimes the source of those types of questions.

To the best of our abilities we should

attempt to anticipate what those questions will be in 2006; shape the workload that addressing those questions requires within the bounds of reasonableness so that actual analysis can realistically be done. And do that in a public forum that is as transparent as possible. We intend to make the Integrated Energy Policy Report forum that transparent forum.

The second overriding objective is to provide whatever assistance we can to the ISO in the conduct of its annual grid assessment process. So as a consequence, as people make comments or suggestions, or raise concerns I would ask that you attempt to take into account the interests of both the CPUC process and the ISO process.

The Legislature, Executive Branch of state government have made very clear a desire that we attempt to improve the level of integrated resource planning done in the electricity area. And that we improve the integration between the principal agencies doing that planning.

That's our objective, and I invite you all to make what contributions you can to helping us achieve it.

Commissioner Boyd.

COMMISSIONER BOYD: No, thank you, John, you covered it very thoroughly. Anxious to get on and get into the meat of this issue. Thank you.

PRESIDING MEMBER GEESMAN: Al.

MR. ALVARADO: Thank you, Commissioners. My name is Al Alvarado. I'm the Project Manager for the electricity systems assessments that the Energy Commission will be conducting in support of this 2005 Energy Report.

As Commissioner Geesman indicated the purpose of today's workshop is to hear from you, to solicit public comments regarding the proposed set of electricity resource and transmission data requests.

Now, we've already adopted one set of electricity and transmission forms and instructions. There are data requests back in the January 19th business meeting. In addition, we're seeking additional information from the load-serving entities regarding key scenarios and different uncertainties.

This information will assist the Energy Commission in developing and understanding key risks and uncertainties that are facing the state and the region's electricity system.

So, we would really like to hear from you and what you think about this information that we're seeking, and whether it's sufficient to establish a range of capacity and energy needs throughout the 2016 forecasting period that we're covering for this Energy Report.

If any participants believe that the load-serving entities should conduct studies beyond those in the staff proposal, what we're asking you to provide is to identify the goals of such studies, the risks exposure, any decision criteria that would be used to evaluate these studies, data necessary and potential policy implementation of the study findings.

We believe the studies could be just thoughtful discussions; it could be a simplified quantitative demonstration; or maybe a full blow scenarios, resource scenarios, some in part which we are asking the LSEs to file.

We are transcribing this workshop to help us sort of track the comments that you provide today, so if you wish to make a comment please come on up to the dais, the podium, and speak in the microphone. Please state your name; give the court recorder your business card. This

way we can make sure your name's properly spelled in our transcripts.

For those of you who are listening on the internet, we do have this call-in number, which is up on the slide. The call-in number is 888-809-8969; the password is Alvarado; and the call leader is myself, Al Alvarado.

If you are listening in on the phone could you please keep your mute button on on the phone until you're ready to speak, since most sounds will carry through the PA system here in the hearing room.

We're also open for receiving additional comments. If you do prefer to file some comments, please submit them by 5:00 on February 22nd.

For today's agenda I think we'll first start out with a representative from the California Public Utilities Commission that will give us a short talk about the links between the Energy Report proceeding and the upcoming 2006 procurement proceeding.

Following that we have Jim Woodward, staff here at the Energy Commission in the electricity analysis office, that will be providing an overview of the staff proposals for

this additional data requests.

And following that we will open up for comments.

With that, unless you have any comments I will ask Manuel Ramirez from the Public Utilities Commission to come up and speak.

MR. RAMIREZ: Good morning, Commissioners and everybody else. My comments will actually be very brief as there's still quite a bit that I think both Commissions are working to address. And basically in response to the first principal objective of how best to serve the needs of the California Public Utilities Commission's procurement cycle. My comments will address a little bit about the uncertainty issues.

Last, I think, October and November last fall Steve St. Marie came before you and spoke about six areas of need that the PUC would require. And I noticed that in your staff proposal you've addressed essentially all of them. So I won't go into all those in detail.

I would note that aside from the uncertainty aspect that you've asked in your staff proposal there's a lot of other things that are still kind of up in the air.

We're proceeding with the resource adequacy workshops to finish a lot of the counting requirements that we will impose on the load-serving entities. And, as such, I know that there's sort of an iterative process involved with the outcome of those workshops and a lot of what you guys will be requiring here and what we'll be ultimately requiring at the PUC.

With respect to the major uncertainties and the risks analysis, the Commission is interested in drawing from the California Energy Commission's IEPR process the load forecast and resource mix that it identifies as needed by California.

To the extent that the utilities feel that they need to do a different sort of load resource mix, as well, we are requiring -- we would like a cost analysis done on those various load resources. And I understand that a lot of the uncertainties really fall into forecasting the load. And the staff proposal has identified various issues which impact load forecasting.

Certainly the load forecasts drive the resource mix, the portfolios that the utilities will be entering into. And so to the extent that

there's uncertainty in the forecast, and uncertainty in the portfolios, what the Commission could benefit from seeing is the likelihood of those uncertainties around the forecast, and ultimately around the portfolios and the costs associated with that.

Unfortunately I can't really get into too much more specifics at this point. I think what I can say, though, is that both Commissions are still working collaboratively to try to address the best approach, both in terms of process and the data requirements, that would ultimately satisfy the PUC, but could come in through the CEC's IEPR process.

And I know that others will probably talk a little bit more about this later, but in part of the outcome of some of the collaborative efforts that have been going on at the staff level is an intention to formalize a process whereby the PUC can let parties know that the data that's transferred from the CEC to the PUC will not be relitigated. That it is sufficient to meet our needs. And, if not, then what the issues are that we expect for parties to address.

I'm not quite sure exactly what the

process of setting that procedural schedule in mind is, and I think others will probably address that. But at that point I expect that we'll have a lot more specifics in terms of data requirements that the PUC will need.

I think that's pretty much it. I would take any questions if you guys have some.

PRESIDING MEMBER GEESMAN: I have one question. It relates to the discussion of the carbon adder that was included in our staff report. I think we suggested that a range of $7 to $25 per ton of CO2 be included in the analysis.

My recollection of the December CPUC procurement decision was that range was specified a little bit differently as $8 to $25, which I think would tend to knock out the relevance of our $7. But also the December procurement decision suggested that your Commission envisioned a more specific dollar value being established in March of this year as a result of, I guess, the avoided cost of proceeding, or some other work that E3 was doing for you.

Do you anticipate that dollar number being more specific in March? And what should we ask of the LSEs in terms of developing a

greenhouse gas adder in their analysis?

MR. RAMIREZ: I think this is certainly an issue that we could try to resolve at the staff level. In terms of the specifics I'm not as involved in the renewables section of the procurement proceeding to address the specifics of that. Sounds like Karen has a comment.

MS. GRIFFIN: I'm Karen Griffin from the Energy Commission, but I'm also our CPUC tracker. And there is a scoping order in that proceeding which has laid out a process where that issue is not going to be taken up until the end of 2005. They are first going to decide the avoided costs for just measuring energy efficiency in the first quarter. Then deal with the QF avoided cost as the next big issue.

And the long-term avoided cost, which is where this issue comes up, will be in the third phase of the proceeding.

And that order was subsequent to the December decision. So at the time of the December decision they didn't know that this was going to be moved off a bit.

PRESIDING MEMBER GEESMAN: So it sounds then like we'll be proceeding with a range

approach?

Would it be correct then to, rather than our $7 to $25, substitute your Commission's $8 to $25 range?

MR. RAMIREZ: It seems to suggest that the case is that we should proceed with a range. In terms of what the specific range should be, like I said, I think that's probably part of something that will be developed shortly in terms of what the requirements are.

You know, I can't tell you whether the Commission intends for it to narrow the range from $8 to $25, rather than $7 to $25. And that's something --

PRESIDING MEMBER GEESMAN: Okay, well, let me say that shortly, to me, means between now, and the date which I anticipate to be about two weeks from now, when I sign an order.

MR. RAMIREZ: Right.

PRESIDING MEMBER GEESMAN: So, shortly is pretty short.

MR. RAMIREZ: Okay.

COMMISSIONER BOYD: Would you expect, I guess it's in next week's PUC en banc discussion of climate change to shed any -- to touch this

point at all?

MR. RAMIREZ: I don't think this particular issue is going to be that specific.

COMMISSIONER BOYD: I didn't think so, either, but since short was just referenced, --

MR. RAMIREZ: Well, by short, and like I said, I think I'm somewhat at liberty to say that in part of the ongoing discussions that the Commissions' Staff have had is trying to address sort of a procedural timeline on how to deal with the specifics of data requirements.

And I know that at least from the PUC's perspective there is a recommendation that there be some kind of joint ruling laying out that procedure. And then also specifying the data.

And the intention there is to do that fairly soon. And that's kind of what I meant about shortly.

PRESIDING MEMBER GEESMAN: Great. Any other questions for Mr. Ramirez? Any questions on the phone?

Okay, why don't we proceed.

MR. ALVARADO: Okay, next up we have is Jim Woodward, who will provide a summary of the proposed data requests we're asking on scenarios

and uncertainties.

MR. WOODWARD: Thank you, Al. I'm Jim Woodward with the electricity analysis office, California Energy Commission. Thank you for being here today, thanks to those who are listening in on the web.

I'd like to say first of all that no one could agree more with Commissioner Geesman than me, and his wish that this was a more informal proceeding. So I second that. But here I stand briefly trying to just highlight some of the material that is in the handout and published on the web.

There are seven pages in the forms and instructions that were designated as a staff proposal in what was otherwise adopted January 19th. And this workshop is intended mainly for you, those who are potentially filing, submitting information that will probably be due by April 1st, according to these guidelines, these instructions, and some of these requirements. So I'll try to be brief in addressing and highlighting some of the concerns.

First of all, it may be helpful to review the majority of what's in the forms and

instructions has already been adopted, and there are certain due dates.

First of all, those load-serving entities who had 200 megawatts of non-coincident peak load in either 2003 or 2004, any LSE with 200 megawatts or more in those past two calendar years is asked to provide information on our electricity supply forms, S-1 through S-5. And to submit that in about two weeks, by March 1st.

If there is an LSE that has not, all the small LSEs in the state that did not have 200 megawatts non-coincident peak load are asked to submit a letter requesting to be exempt from providing these forms. And the Public Utilities, very good readers. In fact, we've had a few comments from parties.

And I must say first that they're all knowledgeable, professional and very courteous in responding to staff on this. And correctly noted that our usage of the term small, medium and large utilities are a little at variance from what FERC and Public Utilities Code meant.

We defined it in this context. Small and medium being under 200 megawatts. In other contexts, small is under -- just small is under

200 megawatts. So, for the small utilities, please send a letter to us by March 1st, addressed to our Executive Director Mr. Therkelsen. And a copy to Dockets and Project Manager Mr. Kennedy and Mr. Alvarado, would be very much appreciated, requesting that exemption.

It would also be appropriate for the small utilities to provide their latest annual report to their customers, which is also mentioned in the guidelines. That's something that we hope is very prudent and feasible for the small utilities to do.

Second bullet point here. The transmission owners are already being asked to describe for us their process; to identify the corridors that you need; and to identify potential corridors.

And then, secondly, to describe on project forms those upgrades to the bulk transmission system over 200 kV. And to submit that information by April 1st.

We are not concerned with the LSEs who want transmission only to a point of interconnection, but owners or participating owners in the bulk transmission system.

And thirdly, we've already adopted requirements for certain hourly data to be provided on qualifying facilities, wind generation and hydrogeneration going back the last two or four calendar years.

Now, on to what's proposed, page 53 to 59 on risk and uncertainty. And these are just topics that we'll cover in subsequent slides here briefly.

We'll ask parties to address in narrative and qualitative ways, not quantitative, the uncertainty and risk assessments that they are already doing, and which they're asked to do as well.

There will be one full-fledged scenario to address on accelerated renewables. Be some information on assessing total resource plan costs on an annual basis. Four other topics and concerns will receive special attention by the IOUs on local reliability, departing loads, QF contracts and a greenhouse gas adder.

And finally, all parties will be asked to comment, provide some discussion informing and enlightening us on the risk factors involved with electricity and transmission planning, and the

potential tradeoffs that may be available.

And first, all LSEs are asked to file a reference plan. Their cover letter should be able to designate the supply forms as part of their reference plan.

They're also asked to calculate the effects of major uncertainties on three principal outcomes involving their forecasted loads, on their resource portfolios, and on the wholesale energy prices that they're exposed to through their procurement and ownership portfolios.

The IOUs in particular are asked to assess the sensitivity of natural gas prices and their forecast and how they relate to wholesale energy prices.

And finally, the IOUs are expected, they may file their own preferred resource plan with their own particular assumptions. That would all be due April 1st.

There's one full-fledged scenario that the staff proposal specifies for the three large IOUs and the two largest publicly owned utilities. That information is detailed in the proposal. We ask that Pacific Gas and Electric and San Diego Gas and Electric, LADWP and SMUD assess what would

be required to reach 28 percent of defined eligible renewable resource energy by calendar year 2016. That would be on a path to reaching 33 percent by 2020.

And Southern California Edison has asked to provide that scenario which would lead them to reach 31 percent by the year 2016, which is the end of our forecast period.

And a couple people have humbly told us that this ten-year resource plan really includes 11 years, and they are right, 2006 to 2016, but we can deal with the larger numbers.

PRESIDING MEMBER GEESMAN: Jim, let me jump in there.

MR. WOODWARD: Please.

PRESIDING MEMBER GEESMAN: And I don't want to quarrel with the nomenclature that you've used, though, in terms of accelerated renewables. But I would observe that since the Commission adopted this 33 percent in 2020 target in our 2004 Integrated Energy Policy Report update, the CPUC's procurement decision goes to some length about making renewable procurement the rebuttable presumption in all procurement activities And discusses a maximum feasible procurement approach

to renewables.

And the Governor, in the A pages to his budget proposal submitted to the Legislature in January, indicated that the Administration has embraced the 33 percent in 2020 objective.

So, this is something that we treat pretty seriously, and would like to know where the flaws are. Would like to know where the barriers are, where the roadblocks are, what the state needs to do to make this particular scenario an achievable scenario.

So I'd make a special request to all of the LSEs that you address this with considerable seriousness in your submittals to us.

MR. WOODWARD: Indeed. And that rebuttable presumption is probably well incorporated in the expectation the PUC will require all source request for offers -- proposals after the energy targets are met through annual procurement goals set to meet the RPS.

On resource plan costs we are fairly lumpy in what's required. We are requesting that IOUs provide a single annual total cost for all in generation, including transmission and delivery, for the three supply plans which we expect them to

submit. The reference case, the preferred resource plan, and the accelerated renewables.

And beyond that we do ask that those parties submitting scenarios and preferred resource plans describe what drives the cost, and what some of the barriers, obstacles, benefits are, especially as related to the accelerated renewables scenario in this regard.

There are four other topics that we highlight in the proposed requirements here for the IOUs to address, and they're detailed in the handout. The first is on local reliability. We mentioned it's a scenario, but it's not a full-fledged scenario. We're not expecting a full set of S-1 through S-5 supply forms be provided. But we do want a clear assessment of what would be required or anticipated to meet Cal-ISO's local reliability requirements for generation, and tradeoffs would be involved with transmission to local areas.

On the greenhouse gas adder there are a couple points that may be worth noting. First we'd like to correct the error on page 55 of the forms and instructions that say the carbon adder is an externality adder. It's used here primarily

as a financial -- it's a proxy for financial risk exposure from future carbon caps or credit costs that some entities are already including in their planning worldwide. It's not a true externality cost, but a financial risk exposure.

And we're asking for comments on how that would be or could be included, how it should be included. The timing, as was noted in the previous discussion, is very difficult for integrating that with this year's effort. It's not expected to be part of the reference case submitted by the IOUs with their forms on March 1st.

We did adjust the lower figure down to $7 per ton for discussion purposes, mainly to align with the Federal Bipartisan Commission on Energy Policy that provided a report in early December. And that recommendation from that bipartisan group, Federal Energy Task Force, recommended that CO2 adders be capped at a maximum of $7. So we wanted to have at least one penny overlap with that proposal.

On QF contracts we're simply asking that the IOUs assess what would happen if all or nearly all QF contracts that exist now were extended.

On departing load we specify in some detail in the proposal a second range of possibilities beyond those that are in the forms and instructions. Asking the IOUs to assume that 75 percent of their large customers, over 500 kV, would depart starting in 2009 and with 30 percent departures that year, unbundled service; and for each year after that, going up another 15 percent to reach a total specification of 75 percent. That's just an arbitrary assumption we ask the IOUs to assess as a special topic here.

Then we get on to the perhaps more general and open topic of risk factors and potential tradeoffs. And this is part of the narrative and qualitative assessment that we would like all LSEs to provide and submit by April 1st.

What we're looking for are an assessment of the major uncertainties that create risk, that would drive resource procurement differently. What would change the procurement or portfolio options in a significant way. Not everything is -- a lot of things have uncertainties, but not everything has the same risk, or equally weighted risk for those managing portfolios.

And there are a couple comments that may

help to amplify what we're looking for here. Everyone recognizes future events are uncertain, yet we have to act now to meet future power requirements. We're engaged in a planning activity to help us decide how best to act, given the uncertain future.

Future occurrences that are uncertain have probabilities of happening, which we may or may not be able to confidently predict. Yet we have to try our best because these events have impacts, environmental, cost or price, or shortage, also meeting reliability. Those are the three impacts or outcomes we're most concerned with. Some impacts are large, some are small.

The range of uncertainty may be large or small, or our ability to predict it. The risks are the probability weighted values of the potential impacts.

And when we ask LSEs to calculate those major uncertainties, what we're looking for is an assessment of that potential impact. For example, the expectation about how much distributed generation will occur could be way off by an order of magnitude or two. That may have very small impact on the portfolio and procurement decisions,

depending on the LSE. We're not in a position to state what those impacts are.

Picture a tornado diagram for each LSE and it looks different. What factors influence the procurement decisions.

Global climate change has a lot of uncertainty related to it. It may not be much of a driver for the next two years. And consider that we're looking for information on the years 2006 to 2016. For this energy report cycle, it's the last time we'll ask about the years 2006 and 2007.

So there may be other topics, other areas we can do better at in future energy report cycles. So we'll ask for that comment, that insight from the reporting parties, as well. Not that we can incorporate everything in this cycle, but we're committed to making it better in future years and to collaboratively work on the integrated assessment from both stakeholder perspective and a statewide concern for which we have some stewardship responsibility.

So, again, all parties are asked to help us answer some general questions related to uncertainty and risk.

What are the quantitative assessments that we should be addressing. This was touched on in Dr. Stephen St. Marie's comments late last year on the drivers for the range of need, the net open positions that the IOUs, but also for other load-serving entities.

How should those quantitative assessments of uncertainty be handled? What should we be looking at more than others?

And secondly, how can the decision criteria incorporate these risk assessments? Is it the decision criteria of the LSEs, of PUC, Cal-ISO, Energy Commission? How could we better incorporate these multivariant risk assessments?

And we're just starting out here. We're not asking for an integrated, multivariant, simultaneous modeling run of these different risks. We're asking for a compartmentalized approach, if you will, taking each one separately to keep the modeling burden down in the short timeframes.

And last, what might be suitable and appropriate for making the tradeoffs between environmental performance and rates and reliabilities. Some of those are becoming

obvious, such as the greenhouse gas adder might be a significant place of making those tradeoffs and integrated connections.

And the last slide here on transmission, just a review. All parties are invited to discuss the future requirements of deliverability. We ask LSEs to assume their own deliverability screening and the supply forms that they'll be submitting. And there is another proceeding at the PUC underway.

But these submittals from other IOUs -- other LSEs, I mean, may be very helpful for providing information if these LSEs and transmission owners are not participating in the PUC proceeding. This is an opportunity to comment on what type of deliverability reporting requirements would be appropriate.

And secondly, if the IOU reference case and preferred resource plan depends on a bulk transmission upgrade that's not yet approved by regulatory authority, we ask for a with and without analysis.

And with that, I'm happy to conclude.

PRESIDING MEMBER GEESMAN: Yeah, I'd say on this last topic of transmission, we, meaning

state government, need to make some definitive progress on this front in this cycle. I thought the single most discordant note in the CPUC's December procurement decision was the awkward discussion of SDG&E's transmission proposal. And I'm not certain what I would have substituted for the language that they used. But to basically give them an atta-boy to keep planning to meet a 2010 resource need.

It strikes me that here we are again right in the middle of the Valley-Rainbow fiasco with a five-year planning horizon. And I think that it is incumbent upon us, in collaboration with the ISO and the CPUC, to figure out a better way to deal with these projects than we've been able to to date.

So I would like to see coming out of this cycle a more prescriptive approach, how to get ahead of some of these projects, make some fundamental decisions about which corridors are needed for transmission, and provide something of legal significance to the prospective transmission owner or project applicant that can be relied upon.

I think if we don't figure out a way in

which to do that, we just continue to chase this subject in circles and circles and circles.

So I would invite all of the LSEs responding to this particular request from the staff to put your best ideas forward. We're struggling here to figure out a way in which to improve upon a situation that has vexed the state for a couple of decades now, but which I think is hitting an increasing level of intolerable-ness and that we can't ignore much longer.

MR. WOODWARD: Thank you, again. I just wish to express appreciation for the PUC being here today, and to acknowledge that this is a good faith effort of Commissions and staff to collaborate and integrate our procedures. Some of this is in public, some it is much work still is ongoing, and we struggle. But it's a good faith effort, and it will be better for the information and insight that is provided by the stakeholders in this process.

Thank you.

PRESIDING MEMBER GEESMAN: Okay, comments or questions?

MR. McLAUGHLIN: Good morning, Commissioners. Bruce McLaughlin, California

Municipal Utilities Association. Quick question. According to Public Resources Code 25320(b), which you're familiar with, that requires a person to submit only information that is reasonably relevant and that the person can either be expected to acquire through his or her market activities or possesses or controls.

So in regards to the accelerated renewable request for SMUD and LADWP, since there is no quantitative requirement from the Legislature for RPS for munis, is this a request where they can cooperate with you, or is this a requirement which would have penalties should they not choose to comply?

Obviously we support the grand goals of this IEPR, and so this question is not to cast aspersions upon that. But I would like is it a request or a requirement.

PRESIDING MEMBER GEESMAN: It's a request. I'm not aware of us having previously imposed requirements or penalties on municipal utilities. I'm willing to believe we have that authority. I certainly think that there are a lot of others in this town that would suggest that you are under a solemn obligation to provide it. But

I think from our standpoint it's a request.

MR. McLAUGHLIN: Thank you very much.

MR. TRUMP: Good morning; my name's Andy Trump and I'm here on behalf of Duke Energy.

We're working diligently to try to prepare an application for certification to replace the South Bay Power Plant in Chula Vista.

Our request is that, as part of this process, we think it will be meaningful and beneficial if there was a requirement to look at, you know, the tradeoffs between an incremental in-basin resources versus an out-of-basin resource.

Working with SDG&E and the San Diego Regional Energy Office and a variety of stakeholders, there's a bit of a swirl about really understanding the tradeoffs, the pros and cons of looking at the additional resource in-basin versus the tradeoff choices out of basin. And we think they're important; we think they're relevant to understanding how to best optimize the choices.

We're confident that there's actually a lot of win/wins out there; that there can be support for incremental resource in-basin that may add additional flexibility and choices, even with

regard to the important transmission upgrades.

But without more active support and guidance I don't think we're going to all collectively get there in terms of understanding what those tradeoffs look like.

We would encourage that analysis be not just qualitative, but also quantitative, taking into account the whole spectrum of issues, or air emissions, costs because of wheels, transmission upgrades either created or not needed, you know, the whole spectrum of issues that I think are germane and pertinent to your resource planning activity here.

So that's our basic request. And if it's helpful we can put that into a letter and send that to you. But it is specific that we're looking for the Commission to consider adopting, as part of your order that's coming out, that that should be a specific requirement for SDG&E. And we're willing to support that. We think it can be a generic in-basin resource compared to a generic out-of-basin resource. And we'd be willing to help to supply various inputs to that.

PRESIDING MEMBER GEESMAN: You know, if you could provide as detailed a recommendation to

us as you can, it would be helpful. I would ask that you also make certain that you include cooling water impacts, and that you address whether the deliverability standard and the timeframe for attempting to better define that standard sufficiently gets at the question.

MR. TRUMP: Yeah, and just our proposal down in South Bay is not to continue to use once-through cooling. We're looking at recycled water resource. We think that's an important aspect, and we'll certainly emphasize that.

PRESIDING MEMBER GEESMAN: That's terrific.

MR. TRUMP: Thank you.

PRESIDING MEMBER GEESMAN: Thanks for your suggestion.

COMMISSIONER BOYD: I'm intrigued by the suggestion.

PRESIDING MEMBER GEESMAN: Mr. Kelly.

MR. KELLY: Steven Kelly with the Independent Energy Producers. I have one comment and then a question.

As you're aware as you pursue your path of long-term planning, the PUC is pretty far along on the implementation of its RAR workshop process,

which also has an element of planning engaged in it. And it's come to my attention that there's a great deal of confusion amongst at least market participants about whose planning is ultimately going to be the drivers for the actions that are going to be taken.

Long term, I understand, it's you, I believe it's you. The PUC has made the statement that said that they're going to refer to the IEPR process. I think that applies to midterm, which is three to five years out.

But in the shorter timeframe where they're calculating the deliverability planning aspects for RAR requirements, it's not really clear whose analysis is going to be the driver for decisionmaking.

And my comment is that it would be very helpful if the joint energy agencies could tackle the question of the sequencing of planning and the need for seamless planning processes so that market participants and load-serving entities will know which planning process will be the one that is going to be presumably the catalyst for action.

So that would be my one comment I think would be helpful in this process.

The question that I have would be, at this point, I understand you were asking for comments on, I think, April 1st. Is there going to be any opportunity in the process for what I call the equivalent for replies or anything like that?

PRESIDING MEMBER GEESMAN: I think we're asking for comments by February 22nd. We're asking for filings by April 1st. We will have workshops and there will certainly be an opportunity to reply.

As it relates to the resource adequacy proceeding, let me give you my take on it. Our staff is participating with the CPUC Staff on a collaborative basis there.

I would rely on our process in the areas where the procurement ACR identifies that the CPUC intends to rely on the IEPR process for input. And I think in resource adequacy, at least my own judgment, it is more likely to be an area that the CPUC is in the lead on, just because of timeframe. Our process, I think, is best focused on a little more distant time horizon than they are deploying in the resource adequacy process.

And if that needs further clarification

I think you should seek it as an ACR in the resource adequacy proceeding.

MR. KELLY: One of the reasons I raised it here is because I think it has an impact on the ISO. And the ISO does transmission planning; the ISO does simulations of the grid for its RAR determinations.

And it would be helpful to get clarification vis-a-vis the ISO particularly for the short-term timeframe that I'm thinking of, as to which planning product, work product, that's going to be blessed by what, however is going to be the driver. And that's unclear right now, I think.

PRESIDING MEMBER GEESMAN: Well, I think that's something that we can ask the staffs to try and resolve.

MR. KELLY: Great, appreciate that.

PRESIDING MEMBER GEESMAN: Other comments or questions?

DR. RYAN: Good morning, I'm Nancy Ryan with Environmental Defense. I want to thank the Commissioners and the staff from the CEC and the CPUC for the deliberate and considered way that you're approaching the IEPR. I think this is

really significant progress for our state.

Just want to sort of raise one issue that I think is woven through a lot of the comments that we heard, or the remarks we heard this morning from Mr. Woodward, but I think could be surfaced more in the materials that are required from the utilities and the way that that information is integrated together in the IEPR.

And that is just bringing out more explicitly what the environmental impacts are with the different resource portfolios that may arise from the different scenarios that you all are asking the utilities to consider.

I think it's very much the case that the environmental impacts are essentially the flip side, or the analysis of the environmental impacts are very much the flip side of the cost analysis that underlies the determination of what the resource mix would be under different scenarios. In that the sort of underlying question that gets asks in determining what the resource mix will be in each scenario is what's the least cost mix of resources given a particular projection about natural gas prices, or given a particular value of the greenhouse gas adder.

And given that those tradeoffs will be analyzed implicitly in whatever modeling or analysis is undertaken by the utilities, what I would urge the Commission to do is to really ask the utilities to bring out that information about how the resource mix would be different.

In other words, how much natural gas-fired power, versus how much imported coal-fired power, versus how much renewable energy would collectively comprise the resource mix under those different scenarios. And how would the overall environmental profile of those scenarios differ.

So I think, again, that question is implicitly being addressed. And I'd just like to see that information surfaced when that information is pulled together.

So, in some sense, I mean, that's the analog to the all-in costs that are being requested. So some sort of all-in assessment of impacts in terms of how much overall GHG impacts, but also there needs to be a look at criteria pollutants, metals, most notably mercury, and, of course, as you've already noted, Commissioner Geesman, the cooling water needs.

So, it would be very valuable to look at

that. That's distinct from asking the question, you know, will a specific coal plant that's been proposed somewhere in the intermountain west be built, but rather just sort of what sort of overall mix does a given scenario drive.

One other quick comment regarding Mr. Woodward's remarks about the greenhouse gas adder. I just want to say that we appreciate that clarification that what's being addressed here is essentially the financial risk. And that that's not the same thing as value in the externality. I think that's a step in the right direction to acknowledge that distinction.

And finally, --

PRESIDING MEMBER GEESMAN: I think the CPUC procurement decision was pretty clear about that.

DR. RYAN: Okay.

PRESIDING MEMBER GEESMAN: And if I understood Jim's comments, we're embracing that explanation as to where those values come from and what they purport to represent.

DR. RYAN: Great. And then one last point regarding the discussion about transmission needs. Again, there's an environmental issue

buried in that discussion; again, it's something that may be valuable to surface.

And that is that construction of different transmission lines, particularly some of the bulk lines that are under consideration, may have an impact in terms of advantaging or disadvantaging particular proposed projects with different environmental profiles, either coal or renewables. And it would be very valuable, again, to just surface that information in the course of this.

Thank you very much.

PRESIDING MEMBER GEESMAN: That's very much the case. Thank you, Nancy.

Other comments or questions?

Hello, again.

MS. TURNBULL: Yes, good morning. I'm Jane Turnbull from the League of Women Voters, once again.

The League has been very supportive of this Integrated Energy Policy Report process. We think that this particular process that's going on today is a very good example that does illustrate the importance of integration.

We do acknowledge the fact that we have

a very fragmented electricity system. Fragmentation is not, per se, evil, but it certainly makes the system a great deal more complicated.

And I guess one of the concerns we have is the level of uncertainty that may exist because of the exemption of generators that are less than 200 megawatts. In talking with my neighbor this morning I learned that QFs amount of 16 percent of PG&E's generation capability, 18 percent of Southern Cal Edison's. That's a significant portion.

We also have the municipal utilities; and many of them have generation less than 200 megawatts. And we have the northern tier out-of-state utilities, and then I think in each case their load is less than 200 megawatts.

We also are dealing with the new renewables that are coming online, and certainly they will be a significant portion of the new generation coming online. But they probably also will fall in that component.

So, I guess we are wondering the extent to which this whole process can really develop a strong profile of what's ahead when there are

these significant exemptions.

I would --

PRESIDING MEMBER GEESMAN: I think we're covering generation less than 200 megawatts. It's load less than 200 that ends up being exempted. And I acknowledge that's a Swiss cheese approach, but I don't think that there are -- I won't say there aren't as many holes as you're suggesting, but the holes aren't as large as you're suggesting.

MS. TURNBULL: Well, we are concerned about holes, and if they, you know, turn out to be meager, that's great. On the other hand, we really have some level of discomfort at this point.

PRESIDING MEMBER GEESMAN: I think that's an appropriate point to make, and I think we'll get into that more as we get into the demand forecasting side of this process. And the desire of Commissioner Boyd and I to see that forecast disaggregated as much as possible, and some of the human realities on the part of our staff and perhaps some of the other LSEs, as to just what's achievable in this cycle.

MS. TURNBULL: Good.

COMMISSIONER BOYD: I was thinking of the half-a-loaf analogy, but you went to cheese.

MS. TURNBULL: Okay. I also would like to say that we actually were very impressed by the proposals to improve the transmission siting process that have been materialized earlier this year. We would like to see that move ahead; we think it's really very important.

Thank you.

PRESIDING MEMBER GEESMAN: Thank you, Jane. Other comments?

MR. JUELS: Good morning.

PRESIDING MEMBER GEESMAN: 'Morning.

MR. JUELS: My name is Raymond Juels and I'm speaking on behalf of Southern California Water Company which owns a small electric utility company called Bear Valley Electric. We are the fourth largest utility, electric utility, based in California. But the difference, as you know, is several million customers between ourselves and San Diego Gas and Electric.

And the reason I wanted to appear this morning was to say thank you to the Commissioners and to all the participants of the workshop for considering our ratepayers there in Bear Valley.

Because had we not had the opportunity to file for an exemption, this accelerated renewable resource requirement would have imposed a great deal of cost on them that they couldn't afford.

So, thank you.

PRESIDING MEMBER GEESMAN: Thank you for your comment.

MR. KINOSIAN: Good morning, Commissioners. My name's Robert Kinosian and I'm with the Office of Ratepayer Advocates. And I was going to make a couple quick comments on some further uncertainties you might want to consider; and Scott Cauchois, also from the Office of Ratepayer Advocates, will make some followup comments on that, on some other issues.

First, one uncertainty that doesn't look like you're considering at this point is the potential for the continued operation of the Mojave Coal Plant. It's currently slated to be shut down at the end of this year.

Though in the PUC proceeding parties -- proponents of the plant made it very clear that they believe there is the potential for the plant to keep operating. And I can't tell you specifically what the odds are of that, but it is

a possibility.

And the Commission's decision on that did encourage Edison to keep the option of the plant operating alive. So that given that it's 1000 megawatts of baseload coal power for Edison, it's a significant impact on the resource plans. We think it's worth doing SRO with that plant operating.

Second is in regards to QFs, and more specifically cogeneration. As I'm sure you're aware, a number of the existing contracts for cogenerators are expiring soon. Those contracts have had the incentives for those plants to operate in a baseload fashion, even though they were gas burning and we would like to reduce the use of gas in the state.

It's quite possible the new contracts will no longer contain an incentive to be operating in a baseload fashion. In addition the Energy Commission's permitting process on these plants has, in the past, included some dispatchability provisions for some of those contracts. And when those contracts expire we would expect the Energy Commission will revisit the amount of dispatchability they might require

as a permitting condition.

So it's quite possible that in the future these cogeneration facilities might not be operating in the baseload fashion they have historically, which does add to the concerns about minimum load conditions and lack of availability for intermittent resources. So we think that's another scenario you might want to consider, potentially modeling the cogeneration plants operating, say on a 6-by-16 basis, rather than 7-by-24, or something like that.

PRESIDING MEMBER GEESMAN: Let me try to make certain I understand exactly what the dimensions of that scenario would be. Are you suggesting that we focus on those cogeneration projects that we have previously permitted? Or are you suggesting that we look at the universe of all QF cogenerators that have contracts coming up for expiration?

MR. KINOSIAN: What we had envisioned was potentially a scenario where you would assume that expiring cogen contracts, that instead of assuming that that power continues to operate in the future as a baseload resource, that you assume it operate something like 6-by-16 --

PRESIDING MEMBER GEESMAN: Okay, and --

MR. KINOSIAN: -- like that.

PRESIDING MEMBER GEESMAN: -- you'd apply that to the universe?

MR. KINOSIAN: To the universe of them, right.

PRESIDING MEMBER GEESMAN: Okay.

MR. KINOSIAN: But once again, we do think that it's worth the Energy Commission looking at what they have required in permits to revisit that and see what might be more appropriate now.

PRESIDING MEMBER GEESMAN: But you wouldn't limit that scenario solely to the fairly small number of projects that we've permitted?

MR. KINOSIAN: That's correct, right.

PRESIDING MEMBER GEESMAN: Okay. And on Mojave, I take it you feel that both the coal supply and water supply are sufficiently credible that it merits a scenario where the plant stays in operation for the duration of the forecast period?

MR. KINOSIAN: There are a number of parties who have been negotiating for years to renew the contracts for the water and the coal. And those parties, at the PUC proceeding, were

adamant that they believe that they can get the issues resolved and that the plant can keep operating.

PRESIDING MEMBER GEESMAN: And you, ORA, feel that that is sufficiently credible to merit us doing a scenario?

MR. KINOSIAN: Yes.

PRESIDING MEMBER GEESMAN: Okay.

MR. KINOSIAN: That concludes what I have to say. Scott Cauchois has some further comments.

PRESIDING MEMBER GEESMAN: Thank you.

MR. CAUCHOIS: Good morning, Commissioners. I'm Scott Cauchois from the Office of Ratepayer Advocates.

I just want to supplement a little bit Robert's comments. And they'll be a little bit more wide-ranging.

First of all, as I read through the, you know, the ten-year resource plans and the analysis to be done, one thing that concerned me is that the Energy Commission may be receiving an awful lot of data that is going to be quite difficult to manage.

So when I sort of thought about this and

looked at the verbiage surrounding what a reference case was, and at one point I saw that a reference case would assume away major uncertainties, and then I saw a section that said the reference case narrative should include assessments of major uncertainties.

And I think, I'm not quite sure. I mean I didn't see clearly what you meant by that, and maybe utilities of the load-serving entities do, but I was thinking more of a reference case where you've assumed away the uncertainties and then the utilities run, you know, whatever type of risk analysis they're going to do off those reference cases, either in a, you know, single variable at a time, or multi-variable analysis where they look at the scenarios such as community aggregation municipalization, core/noncore, you're probably going to want to look at Mojave in and out.

And then you've got your with and without greenhouse adders and those types of things. And from that analysis, it seems to me that a load-serving entity would want to then construct a narrative that informs its preferred resource plan.

A couple of other things, and I was glad

to hear the little bit of clarification. I sort of real a local reliability analysis as a scenario, whereas I thought of it as just a constraint on every plan that the utility looks at and the Energy Commission looks at.

And as IEP has pointed out, since the resource adequacy guidelines and the final decision won't be out until June, I guess, the load-serving entities are faced with anticipating how the resource adequacy requirements would constrain every scenario that is run.

And then --

PRESIDING MEMBER GEESMAN: And you agree it's better addressed as a constraint than as a separate scenario?

MR. CAUCHOIS: Yes. And I think the importance of it being a constraint is there are going to be local reliability requirements, local deliverability requirements, higher system reserve margins. And as you begin to look at accelerated renewables, and some of your transmission issues, this becomes fairly important to me.

Renewables are not, especially the accelerated scenario, are not likely to be all located near the load centers. That implies more

transmission, possibly more reliance on gas resources as some sort of firming or backing resources, and as local reliability resources, in the local, you know, in the local, I guess the local areas.

PRESIDING MEMBER GEESMAN: Possibly different types of gas generators than those that we've seen in our permitting.

MR. CAUCHOIS: Yes, definitely. So I think there's some big questions there that are going to have to answered, about the firming of intermittent resources; the operational considerations from both the ISO's point of view and the local utility point of view.

And then just a comment on when I think about renewable contracts, or the accelerated renewables and I guess cost consequences, and maybe rate consequences, it starts to remind me of scenarios that look an awful lot like what we had to do to deal with DWR contracts, which is, you know, some combination of assignment allocation, both costwise and from a physical point of view.

And if we, as we seek -- I think the utilities should be urged to address this, is that as you look at accelerating renewables, which are

going to need long-term contracts, not short-term contracts, you're going to run head-on into other things that are going to be happening, such as some increase in aggregation, some increase in municipalization. And then if you interface that with a sort of this core/noncore thing, or this approach where a certain amount of the large load has left the utility, you're once again dealing with allocation of a large number of contracts, assigning them to different LSEs, both from a cost point of view and a physical point of view.

And in one contrast to DWR contracts there's going to be renewable contracts that, you know, they aren't all going to cost the same, either. And the question's going to come up, you know, who gets the low-cost ones, who gets the high-cost ones, and so on.

So I just think there is this scenario that I see where you're going to have some stickiness with longer term contracts. And then this continuing uncertainty that we've had in the last two planning cycles about the utilities' customer base.

PRESIDING MEMBER GEESMAN: Well, let me ask you there, Scott, it seemed to me that the

December procurement decision embraced an exit fee philosophy. Would we not be reasonable in assuming that that perspective will continue to prevail at the CPUC?

MR. CAUCHOIS: I think that is the perspective. I think it's safe to assume it can continue. I think that we've pointed out in numerous cases that exit fees are a great idea. They're never quite right.

There will be problems, say, if you have large load leaving the system of, you know, both fiscal delivery issues and cost issues associated with those contracts, even if you have exit fees.

So exit fees are great in principle. They never, you know, nobody should expect them to get it quite right.

And I think it sort of feeds back to the type of strategy, I guess, or preferred scenario that the utilities prefer and maybe the CEC would prefer, which is, you know, there's going to have to be some continuation of the utilities buying short to cover their, you know, risks around the customer base, at the same time that state policy is urging them to go long with respect to accelerated renewables.

And then caught in between there may be non-renewable sources of power, which was a big issue last year with, you know, with the older thermal plants either shutting down at some point, or the alternative being that we start having longer term contracts for nonrenewables.

So, there are some big tradeoffs involved there.

And my last comment is on your --

PRESIDING MEMBER GEESMAN: Before you get to your last --

MR. CAUCHOIS: Oh, okay, yeah.

PRESIDING MEMBER GEESMAN: -- one, I want to try to better understand this allocation question. To what extent would the DWR contracts is that problem either caused or exacerbated by the prevalence of seller's choice contracts or liquidated damages contracts that are not unit-specific?

And to what extent might we avoid that by at least the assumption that renewable contracts are quite likely to be unit-specific?

MR. CAUCHOIS: I think that will go a good way toward mitigating the problem. But I also think that as the state looks at putting new

transmission into the Tehachapis and, you know, there's going to be a timing issue where that power gets delivered and to whom.

And if you see a, you know, either some sort of breakup of the system where that power is going into different load-serving entities, there may -- I think there will be some problems in dealing with that allocation.

I mean I think the WREGIS tagging is great, that switches the assignment of the physical product. But I think, also, the party that's going to contract for those power sources, at the same time that it's meeting its RAR requirements, is going to demand certain locational constraints which could change as they're, you know, especially as larger customers on their system, you know, depart.

The final thing is in -- yeah, I would definitely like to see more thinking about things like that San Diego transmission project. When we commented on the proposed decision there, that is really about the best that we could come up with, as well, which is short of an atta-boy.

And we tried to say that we absolutely support corridor planning. And, in fact, cost

recovery for corridor acquisition if that's something, you know, in advance. Also recovery of a utility's expenses associated with planning.

But saying that, and then trying to make the jump into what is the next level of sort of legal preapproval, I'm not sure. I mean these projects have got to go through the ISO's study process. They have to go through the WECC study process. And I'm not sure how you get there.

And if you can't shorten that lead time, by the time you do get there your resource mix is going to be a lot different than when the planning started for this project.

And I'm not sure at that point, you know, whether it's going to be the same old problem. Do you go ahead or not go ahead.

PRESIDING MEMBER GEESMAN: Well, you've heard me before describe your office as the de facto transmission planner for the State of California over the last 20 years. And obviously I have some concerns with the way that's worked out.

I think that at least the way I'd characterize the position that you're in regarding the San Diego project is go bring me another rock.

And I think we need to stop doing that, otherwise the public is going to start throwing rocks at all of us.

So, we need to break through this. And I think in this cycle. If it takes statutory change, we ought to recommend statutory change. I'm not certain that it does. But we clearly need to improve upon the performance that all of us have been able to render here in the recent past.

MR. CAUCHOIS: Well, we agree with that, so we'll be very happy to hear ideas or promulgate them. So, thank you very much.

PRESIDING MEMBER GEESMAN: Thanks, Scott. Other comments?

MS. SHERIFF: Good morning, I'm Nora Sheriff. I'm here for the Cogeneration Association of California and the Energy Producers and Users Coalition.

Our focus is on the significant uncertainty related to the QF contracts. We feel that this IEPR Committee, as well as the Energy Commission, is well situated to address that uncertainty by explicitly including preservation of these resources as a goal of the 2005 IEPR.

And also more broadly, and in keeping

with the long-standing state policy of encouraging cogeneration, explicitly including cogeneration in the loading order.

Briefly regarding the ORA comments on cogeneration I'd just like to point out that many cogeneration resources are tied to industrial processes. And the need for thermal energy is important to the core industrial process, moreso than the production of electricity. And therefore, it may not be possible for cogeneration resources to operate in a dispatchable fashion rather than the baseload fashion.

Further, the use of cogeneration captures significant natural gas savings from the dual use of the single fuel. Indeed, the CEC's own combined heat and power report estimated that the cogeneration energy savings, the total energy savings associated with the waste heat recovery was about 150 trillion Btus per year. That's a significant natural gas savings and it should not be overlooked in this process.

Thank you.

PRESIDING MEMBER GEESMAN: Thank you. We do intend to make the situation regarding the expiring QF contracts a prominent feature of this

year's cycle. And I think our analysis will reflect what happens if those resources go away and what happens if we're able to continue to rely on them.

And I think it was the Energy Action Plan joint meeting of PUC and the Energy Commission last September or October that evinced all of the gushing statements of response for cogeneration among the assembled Commissioners, prompting the PUC Staff to articulate what I would call a Goldilocks policy as it regards the expiring QFs in the SRAC proceeding, where we don't want to pay you too much, but we don't want to pay you too little such that we would cause you to go away. So, we want to get the price just right.

As you well know, the PC has that process underway now to determine what that Goldilocks price level is. And I suspect that our analysis will build off of that and we'll make our own policy observations at the end of the cycle.

MS. SHERIFF: Thank you.

PRESIDING MEMBER GEESMAN: Thank you. Other comments. On the phone are there comments?

MR. FLORIO: Hello?

PRESIDING MEMBER GEESMAN: Yes.

MR. FLORIO: Yes, Mike Florio with TURN. I apologize (inaudible) great connection here. If there were other people there in person who would like to comment, I could defer. But, (inaudible) I do have a few remarks.

PRESIDING MEMBER GEESMAN: Why don't you go ahead, Mike. Speak closely to the phone, though.

MR. FLORIO: Okay. First of all, in terms of scenarios, I didn't see anything that raised the possibility that one or more of the nuclear units in California must not continue to operate -- the entire forecast cycle.

And I think at least with respect to the San Onofre plant, that's something that needs to be considered.

The PUC is currently reviewing the steam generator replacement (inaudible) some question on the cost effectiveness level. And also I think there's some questions of technical feasibility there because of having to open the containment vessel and all that that involves.

So it would be prudent planning to at least consider what impact it would have on the

resource mix, and as well as on local reliability in southern California if, at some point, (inaudible) looking towards the back end of a (inaudible) cycle that plant would be no longer available.

PRESIDING MEMBER GEESMAN: Do you think we should do the same analysis with respect to the Diablo project?

MR. FLORIO: Well, I'm sorry, I'm having trouble hearing.

PRESIDING MEMBER GEESMAN: Do you think we should do the same analysis with respect to Diablo Canyon?

MR. FLORIO: (inaudible).

PRESIDING MEMBER GEESMAN: Thanks, Mike.

(Laughter.)

UNIDENTIFIED SPEAKER: Want me to answer for him?

(Laughter.)

UNIDENTIFIED SPEAKER: He just got nuked there --

(Laughter.)

PRESIDING MEMBER GEESMAN: Other comments or questions?

COMMISSIONER BOYD: Well, Mike's not

there to hear, but I think his point is a good one. We've been having these discussions internally since there's a lot going on with regard to nukes and --

PRESIDING MEMBER GEESMAN: Gary.

MR. SCHOONYAN: Thank you, Commissioners. Gary Schoonyan, Southern California Edison Company.

I'm going to basically respond to a few of the things that have been said, as well as make some comments, concerns and a couple of questions with regards to the presentations.

First, the concern; might as well get that out of the way. We've been before you before with regards to having a different renewables requirement than the other utilities. I'm not going to make those same arguments I made before.

I will do an augment, one aspect, or at least give a different consideration there. We are at a very high level, but many of those contracts are going to be terminating over the ten-year planning cycles that we're looking at.

When it comes down to actual procuring of renewables, we will probably, in order to keep that high level, plus add to meet the requirements

put forth here, have to be adding more in terms of percentages, as well as megawatts, than any other utility to replace those contracts that will be terminating.

It's our hope and desire that all those contracts will be renegotiated and gone forward. But even in saying that, we can't guarantee that we, Southern California Edison, are going to be the ones that basically secure the output from those facilities. It could be other utilities; it could be other load-serving entities.

So I just wanted to put this forth as, yes, we are higher now. But that does not mean that the amount of work that we need to do to go forward to keep at that high level and expand it isn't very very significant. And, in fact, moreso than the other utilities. That's my concern.

COMMISSIONER BOYD: Hold it.

PRESIDING MEMBER GEESMAN: We've got to hold, Gary.

MR. WOODWARD: Gary, just a moment. Mike, if you're still on the phone maybe you could turn off your phone. We don't know who it is, but --

MR. FLORIO: I'm (inaudible) --

MR. WOODWARD: Thank you, that did it.

PRESIDING MEMBER GEESMAN: Okay, whoever that was, thank you. Gary, why don't you proceed.

MR. SCHOONYAN: Well, that concludes the concern that --

(Laughter.)

PRESIDING MEMBER GEESMAN: That was your rebuttal on the San Onofre scenario?

MR. SCHOONYAN: Yeah.

(Laughter.)

MR. SCHOONYAN: Mike wasn't quite as clear as he usually is in rebutting things, I might add.

A couple of comments. And one has to do with transmission and in particular, a couple of the transmission projects that we've been working on for a period of time now.

One, DPV-II. We do not plan on doing a with and without for DPV-II. We believe that we will have the approval by the ISO this month to go forward with that project. With that approval we're basically definitely going to go full steam ahead forward. If we don't get that approval, we aren't -- there's a high likelihood we won't go forward with it. So we're not going to see a

sensitivity there.

PRESIDING MEMBER GEESMAN: Now, Gary, you know there have been projects the ISO has approved that have not gone forward. And some would argue that in light of that history the ISO approval plus a dollar gets you a ticket on the San Francisco Municipal Railroad.

UNIDENTIFIED SPEAKER: A buck and a quarter now --

PRESIDING MEMBER GEESMAN: I'm sorry, it's been awhile.

MR. SCHOONYAN: No, no, no, I -- no, I understand that, but I also understand that there has been a move within, you mentioned the Energy Action Plan, the coordination that's existing between these various agencies -- there has been at least a move since these other debacles to basically recognize the approvals of the ISO in determining need going forward.

So, we believe that there's the same sort of roadblocks and problems that we had in the past are not going to confront us as it relates to the need question. The environmental questions, CEQA review, those sorts of things, they're obviously out there and we need to make our case

there.

The other is the Tehachapi wind. We filed a CPCN with the Utilities Commission on that. And we're not, at least from our perspective, going to do a with and without. I mean actually to do a without it would be very difficult, I think, for the state to realize the 33 percent that they're targeting.

PRESIDING MEMBER GEESMAN: Shouldn't we know that?

MR. SCHOONYAN: Here, again, I mean you should know that, but that assessment and evaluation is proceeding presently at the Public Utilities Commission for the certification of those facilities.

There may be other facilities that could access that area, be it from PG&E out of their territory; be it from LADWP out of the Victorville area. But at least we're proceeding through the CPCN at the Public Utilities Commission to basically build those facilities. And don't really, I mean there's a lot on our plate in order to respond to all the various sensitivities here. To do a with and without something that we definitely feel needs to be done, and the state

needs to be done, doesn't seem to be a good use of resources. That's a comment.

A couple of other comments with regards to the Mojave. We've been hearing that the coal and the water supplies, just around the corner is going to be solved. It could very well be solved sometime this year, not to say that it isn't. Then people aren't working.

However, there's this other thing about the court decree that says we've got to basically not operate that facility until we get the proper cleanup systems there.

Even if we were to get a decision at the end of the year that satisfactorily addresses the coal and the water quality concerns, you're talking 2010 before this thing would ever -- it's going to come down in 2006, the unit will be offline in 2006. It's a question of when it will be coming back. You're probably looking at 2010.

And I would submit that basically come the 2007 IEPR that'd be a very good sensitivity. I'm not sure that's such a good sensitivity now, particularly giving the uncertainty associated with all three, the court decree, the water quality -- or the water supply issues and the coal

quality issues.

Cogeneration. We hope all of those things are re-signed. We'd like to see the dispatchability that Bob talks about. But, by the same token, it's funny, I hear the -- and it's not just the cogeneration people, but everyone's for markets, but everyone says, we're special, you got to give us special treatment.

I would love to see the 6-by-16 type of thing, whether or not -- but having negotiated and been in the negotiation of a number of these arrangements, it's very difficult to get that sort of operating flexibility from these facilities. They are there -- and they're very beneficial facilities, but they are there to support a manufacturing process. They're not there to support the reliability and the dispatchability of the system. That's not to say that they aren't good projects, it's just to say that they're focus isn't on that sort of thing. And as a result, it makes it very difficult to get those sorts of flexibilities and what-have-you.

Final two things I have are basically just questions. One comes on the heels of the lady from the League of Women Voters about the 200

megawatt threshold. I'm not going to argue that that's too high, too low, what-have-you. I guess it's just a question I would like to know, an aggregate, just how big the holes are associated with that.

I mean I could postulate that it could be as much as 7500 megawatts of load that falls within that category, which basically is larger than San Diego Gas and Electric. So it is significant. And it's just something that, I mean, a need to know.

PRESIDING MEMBER GEESMAN: Let me ask if the staff has a quick shorthand answer to that. Anybody know?

MS. MARSHALL: I can't answer on load. On a (inaudible) basis, --

PRESIDING MEMBER GEESMAN: Lynn, come up and use the microphone so you're on the transcript.

MS. MARSHALL: On a sales basis that 200 megawatt threshold covers probably on the order of 95 or 97 percent sales statewide.

MR. SCHOONYAN: Thank you.

PRESIDING MEMBER GEESMAN: Do you have another question?

MR. SCHOONYAN: I was curious whether the Committee or the Commission was going to come out with a natural gas price forecast. One of the things that talked about scenarios on gas, to me the IEPR would be much better if everyone was using pretty much the same type of gas forecast in the reference case. To the extent they want to use something different in the preference case, that's different, but --

PRESIDING MEMBER GEESMAN: We'll have a gas forecast, but the timing thereof is -- Kevin, do you have a sense of that?

MR. KENNEDY: This is Kevin Kennedy, Project Manager for the IEPR. I don't recall the exact timing, but it would clearly be too late to be incorporated into the scenarios. I think we're looking at late spring or early summer, if I remember correctly.

PRESIDING MEMBER GEESMAN: So, we'll end up being able to see the differences between each of our gas forecasts.

MR. SCHOONYAN: Thank you, that's all I have.

PRESIDING MEMBER GEESMAN: Thanks, Gary.

COMMISSIONER BOYD: Thank you.

PRESIDING MEMBER GEESMAN: Other comments or questions? Mike Florio, did you come back? Guess not.

MR. FLORIO: Yes, I'm here; I'm also about five minutes away from being there in person, and given the difficulty of the last time, maybe it's better to wait until I'm actually there in the flesh.

PRESIDING MEMBER GEESMAN: Okay. Well, that's something to look forward to.

(Laughter.)

PRESIDING MEMBER GEESMAN: Other comments or questions? Anybody else on the phone care to share something with us?

(Parties speaking simultaneously.)

(Laughter.)

MR. KENNEDY: I think I will take this opportunity to make a couple of quick points. One having to do with the 200 megawatt threshold for the load-serving entities that are filing.

We are separately have data requests out for the environmental characteristics, a number of the environmental characteristics of the generators in the state. And the threshold for the generators that are filing are much smaller.

Goes down, I believe, as low as 1 megawatt for some of the information.

Exactly what the threshold is for different types of information we're asking for on the environmental side varies based on the type of information we're asking for.

So, in terms of trying to characterize the environmental footprint of the generators in the state, we will be capturing a much wider swath than we would be with the 200 megawatt consideration.

Also there's been a number of comments about the need to be looking at transmission corridors. And that's something that we are going to be continuing to look at in this cycle of the IEPR. It's something that we had actually started looking at to some degree in the 2004 update, and had started gathering some information on possible corridors in a number of areas of the state.

One of the things that's in the forms and instructions, the package that was adopted at the January 19th business meeting for the transmission owners to file information on transmission projects, we had asked folks to file information relating to specific -- to what

information on corridors might be needed.

One thing that staff is in the process of doing right now as we look back over what was accomplished in the 2004 update, is putting together a staff letter that would go out to the folks who need to make that filing, explaining the context of what already has been accomplished in terms of starting to gather some information. So that as folks are looking at providing additional information relating to possible corridors that you understand where we are already with that.

So, just wanted to add those two things from the staff perspective at this point.

PRESIDING MEMBER GEESMAN: Other comments or questions?

Mike, can you walk a little faster?

Why don't we take a five-minute break.

(Brief recess.)

PRESIDING MEMBER GEESMAN: As I promised, we now have Mike Florio in the flesh. And I think you're probably our last commenter, Mike.

MR. FLORIO: Okay, this has gone a little faster than I anticipated. I apologize for that bad phone connection a little bit earlier.

I did have a couple more issues that I wanted to raise. On the load loss scenarios --

PRESIDING MEMBER GEESMAN: Before you go there, Mike, I wanted to continue. You had suggested that we look at a no-San Onofre scenario, and I had asked you whether we should apply the same analysis to a no-Diablo scenario.

MR. FLORIO: I'm not sure that it has the same degree of necessity for a couple of reasons. One, there's already a proposed decision at the Commission approving the Diablo steam generator, although, of course, that could always change.

But I think the other factor that makes San Onofre more pressing in my mind is the local reliability implications that San Onofre has that really don't exist in the same way with Diablo.

So, I think you're still looking at a big chunk of megawatts that theoretically might not be there, but it's in an area where there's a lot of generation relative to load. So it's not as pressing.

Certainly wouldn't object to doing a scenario without Diablo, but I think for our purposes, SONGS is the more urgent case.

PRESIDING MEMBER GEESMAN: Okay.

MR. FLORIO: Another area where I wanted to comment was on the load loss scenarios. There's mention of a scenario where 75 percent of the load above 500 kW would switch to a noncore scenario.

I don't think that is really an adequate representation of the potential load loss that could occur over this forecast horizon. Number one, you've got community choice aggregation out there that a number of communities have expressed great interest in, and seem to be moving forward.

And I think rather than trying to put a point estimate on it, you might want to just ask the utilities. I mean, they're certainly aware of what communities in their service territories are considering community aggregation. And if they simply provided an estimate of what the load loss would be if those cities decided to leave, and what implications that would have for their own portfolios, I think that would help a lot.

On the core/noncore the scenario that was posed, I think, was a very conservative one. Certainly there's been discussion of a noncore going down as low as 200 kW possibly, with

aggregation allowed on top of that. That's not something I would support, but it's certainly something that could conceivably come to pass in the next ten years.

And, you know, the current suspension of direct access would expire by 2016 in all likelihood. So, you probably do want to provide for a somewhat larger potential load loss over that timeframe. I would suggest maybe in addition to the 75 percent of load above 500 you might want to consider 50 percent of the load between 200 and 500.

Again, not that that's something I'm advocating, but if you want to look at, you know, what realistically could happen over the next ten years, I think that's something that we have to bear in mind. And what the consequences of that might be for utility procurement and for the state's resource mix, as well, is, I think, worth considering.

PRESIDING MEMBER GEESMAN: Now, do I understand you to say that you read the statute such that the suspension of direct access would be lifted when the DWR contracts expire?

MR. FLORIO: That's my understanding,

yes.

PRESIDING MEMBER GEESMAN: So it would not take an independent act of the Legislature to reinstate direct access, simply the expiration of the DWR contracts could, in fact, accomplish the same result?

MR. FLORIO: It may take an independent act of the PUC, but I -- current circumstances being as they are, I don't view that as a substantial barrier. So it is something that I think is out there that in another forum I'm trying to do something about. But it's not the current reality.

The other aspect that I think, I don't know how far you could go with this in this round, but to try to get some kind of handle on what the resources are that will be serving the nonutility load-serving entities. And I expect if you ask, you know, the ESPs, they'll say, well, we're going to source from the market. And that doesn't tell you very much.

But, I think, to the extent you can in this round, and perhaps with more focus in the next go-around, trying to get a sense of what kind of resources are out there and available to

provide that market for the nonutility LSEs.

We're concerned that because the contracts in the nonutility realm tend to be short term, that you're not going to see new resources get built to serve that load. So, you know, some assessment needs to be done in the state on whether there's going to be sufficient supply to meet those nonutility LSEs that may just be purchasing, you know, one- to three-year contracts from the market. Because if that gets tight, you know, the prices are going to start going up across the board.

That's tougher to do. You probably have to take kind of a tops-down look at that, rather than bottoms-up. But, I think it is worth trying to get a handle on whether there's abundant or less than abundant supply available to the nonutility LSEs.

That's really all I had in terms of comments at this point.

PRESIDING MEMBER GEESMAN: The CPUC procurement decision cast some attention on the proposal of commonwealth, to take a slice of load approach. And I think the decision indicated is that approach was worthy of future study.

Is that something that you think we should use in our process to better examine?

MR. FLORIO: Well, personally I didn't think it was worthy of further study.

The concern I have with that kind of approach is, again, in the places that do the slice of load, it tends to be for a fairly short term, one year, three years, maybe five at the absolute most, and I'm not sure anybody's doing five.

And then you again get to the problem of well, who's going to develop the new resources if, you know, nobody has a load commitment beyond that fairly short term.

So I think we've got a real potential problem in this state as we look at these alternative retail models, we have to very clearly keep in mind how are we going to keep development occurring that we need in the wholesale market.

So I think we need to get ourselves out of the woods there before we spend time looking at these other more exotic ideas.

PRESIDING MEMBER GEESMAN: Okay. Any other comments or questions? Anybody on the phone with comments or questions?

Great. We'll be adjourned. Thank you very much.

(Whereupon, at 10:56 a.m., the Committee workshop was adjourned.)

--o0o--

CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Committee Workshop; that it was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said workshop, nor in any way interested in outcome of said workshop.

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of February, 2005.